The Three Stages to Meeting New Consumer Expectations

AHA Leadership Summit

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8:30 a.m. – 9:45 a.m.
Agenda

1. Market and Organizational Imperatives for Addressing Consumerism
2. A Not-So-Novel Concept: Customer-Centric Strategy
3. The Three Stages to Becoming Truly Consumer-Centric
4. The “So What”: Solving Common Healthcare Provider Problems with Consumer Insights

Please note that the views expressed are those of the conference speakers and do not necessarily reflect the views of the American Hospital Association and Health Forum.
Market and Organizational Imperatives for Addressing Consumerism
Market Forces Creating Healthcare’s Consumer Imperative

1. New incentives and out-of-pocket costs for consumers
2. Transparency leading to actionable consumer information
3. Increased, new, and varied care delivery competition
4. Evolving consumer expectations, often driven by disruptive technology
Family Deductibles Increased 59% From 2008-2014 and Penetration of HDHPs Nearly Doubled

Deductible Trends, 2008-2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Avg Family Deductible</th>
<th>% HDHP Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$1,658</td>
<td>19%</td>
</tr>
<tr>
<td>2009</td>
<td>$1,761</td>
<td>22%</td>
</tr>
<tr>
<td>2010</td>
<td>$1,975</td>
<td>25%</td>
</tr>
<tr>
<td>2011</td>
<td>$2,220</td>
<td>29%</td>
</tr>
<tr>
<td>2012</td>
<td>$2,322</td>
<td>31%</td>
</tr>
<tr>
<td>2013</td>
<td>$2,491</td>
<td>34%</td>
</tr>
<tr>
<td>2014</td>
<td>$2,640</td>
<td>37%</td>
</tr>
</tbody>
</table>

Note: 2015 figures are not yet available for average family deductible.

Forces Driving Increased HDHP Adoption Going Forward

- Public exchanges
- Private exchanges
- Large employers shifting to full replacement plans
- Continued affordability challenges among small employers
- Plan selection decision support tools
- Cadillac tax?
Vitals Smartshopper Combines Cash Rewards with “Travel Agents” to Catalyze Consumerism

- Smartshopper program gives patients cash rewards for choosing low cost providers
- Offers concierge assistance by phone along with transparency tool to maximize activation
- Currently offered by employers and health plans in NH, MA, CT, IN and KY with aggressive expansion planned

Vitals Smartshopper Incentives by Tier for Select Services

<table>
<thead>
<tr>
<th>Service/Procedure</th>
<th>Most Cost-Effective</th>
<th>Second-Most Cost Effective</th>
<th>3rd Most Cost Effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knee Arthroscopy</td>
<td>$250</td>
<td>$225</td>
<td>$75</td>
</tr>
<tr>
<td>Colonoscopy</td>
<td>$150</td>
<td>$75</td>
<td>$50</td>
</tr>
<tr>
<td>CT Scan/MRI/PET Scan</td>
<td>$150</td>
<td>$75</td>
<td>$50</td>
</tr>
<tr>
<td>Lab Tests</td>
<td>$25</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Smart Choice MRI One Example Among Many Competitors Eager to Provider Consumers with a Convenient Alternative to Hospitals

- Freestanding MRI chain with locations in Wisconsin
- Raised $6.5M round of financing in December 2015 to expand outside of the state
- Promises fee of $600 or less including interpretation by Cleveland Clinic radiologists

“With consumers assuming more of their medical expenses than ever before, they want to know their options. They deserve a choice...We are changing the way healthcare is delivered, starting with complete price transparency at a fair rate.”

Rick Anderson, Smart Choice CEO

Sources: Oran N, Smart Choice MRI Raises $6.5m to help fuel national expansion, MedCity News, 14 Dec 2015; www.smartchoicemri.com.
Consumer Expectations and Behaviors Are Changing Rapidly

82% of corporate executives say their customers have higher expectations vs. 3 years ago.

43% of consumers expect a reply to their product/service query within the hour.

Expectations

Behaviors

10 M Annual retail clinic visits

75 M Annual virtual encounters

The Need/Have Gap Is Huge

**NEED**
“Very important to understand patients as consumers”

96% of providers

**HAVE**
“Organization understands consumer needs very well”

15% of providers

Source: Kaufman Hall survey, Oct. 2015
2016 Consumer-Centric Organization Survey: Key Takeaways

Consumerism is a priority... 70% respondents say
Consumerism is above-average priority for organization 70% respondents say
more research is needed to support the platform

... but not yet a capability
20% respondents have advanced capability to develop & gather consumer insights
16% respondents have advanced capability to activate strategies based on insights

Consumerism must be better integrated across the organization
• Less than half of respondents have high awareness of consumer insights initiatives within their organizations
• On average, respondents feel they are 2X more accountable than responsible for making decisions based on consumer insights

Source: Kaufman Hall / Cadent Consulting Group 2016 Consumer-Centric Organization Survey
A Not-So-Novel Concept: Customer-Centric Strategy
Strategy Starts with the “Customer”

1. Consumers have long made choices about where and how to engage with healthcare services
2. Major changes to incentives, information availability and competitive alternatives mean healthcare consumerism is growing as never before
3. Providers must proactively develop insights regarding consumer attitudes and behaviors within the context of healthcare delivery

Key Question: Who is making the purchasing decision and how?
Becoming Consumer-Centric Starts with an Understanding of Consumer Decision Making

**NETWORK DECISION**
- Narrow
- Broad

**NEED STATE**
- Well care vs. sick care
- High intensity vs. low intensity
- Acute vs. non-acute
- Chronic vs. one-time
- Prior experience vs. first time
- Routine vs. specialized

**CHANNEL / PROVIDER**

**“SERVICE SHOPPING”**

**CONSUMER VALUE EQUATION**
- Benefits
- Price

**FUTURE DECISION-MAKING**

**Consumer Healthcare Path to Purchase (Illustrative)**
Becoming Consumer-Centric: What Does It Mean?

Regularly and systematically incorporating insights about consumer needs and preferences to help solve your most pressing business and community service questions.
The Three Stages to Becoming Truly Consumer-Centric
Becoming a Consumer-Centric Organization Is Multi-stage

It starts with leadership

Stage 1
- Leadership
- Organization
- Relevant Products and Services
- Patient-Centric Experience
- Consumer-Centric Access
- Consumer Insights Application
- Consumer Insights Generation
- Patient-Centric Experience
- Relevant Products and Services
- Strategic Pricing

Stage 2
- Leadership
- Organization
- Relevant Products and Services
- Consumer Insights Generation
- Consumer Insights Application
- Consumer-Centric Access
- Patient-Centric Experience
- Strategic Pricing

Stage 3
- Leadership
- Organization
- Strategic Pricing
- Relevant Products and Services
- Consumer Insights Generation
- Consumer-Centric Access
- Patient-Centric Experience
- Consumer Insights Application

Deeper Insights and Regular Application to Key Strategic Issues

The Consumer Is Central to Your Planning and Decision-Making
How to Move From Stage 0 to Stage 3

Problem

- Relevant Products and Services
- Patient-Centric Experience
- Strategic Pricing
- Consumer-Centric Access

Solution

Advancing along the stages of becoming consumer-centric relates simply to your organization’s competency in effectively using consumer insights to solve key issues and create competitive advantage.
The “So What”: Solving Common Healthcare Provider Problems with Consumer Insights
Common Problems Facing Healthcare Providers in 2016

1. Optimizing primary care access
2. Addressing the price risk to low acuity outpatient services
3. Designing a relevant network of services
4. Identifying relevant messaging to the market
Primary Care Is Critically Important: How Can We Develop an Access Strategy That Makes Us Most Relevant to Consumers?

<table>
<thead>
<tr>
<th>Services</th>
<th>Channel</th>
<th>Providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Preventive care</td>
<td>• Primary care office</td>
<td>• Physicians</td>
</tr>
<tr>
<td>• Basic illness/injury</td>
<td>• Retail clinic</td>
<td>• Mid-levels</td>
</tr>
<tr>
<td>• Immunizations and vaccinations</td>
<td>• Walk-in clinic</td>
<td>• Behavioral clinicians</td>
</tr>
<tr>
<td>• Screening</td>
<td>• Urgent care</td>
<td>• Therapists</td>
</tr>
<tr>
<td>• Basic diagnostics</td>
<td>• Emergency room</td>
<td>• Care navigators</td>
</tr>
<tr>
<td>• Pharmacy</td>
<td>• Virtual visits</td>
<td>• Customer service staff</td>
</tr>
<tr>
<td>• Nutrition</td>
<td>• Other virtual interactions</td>
<td></td>
</tr>
<tr>
<td>• Behavioral therapy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Care management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Referrals and care plans</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Designing the right mix of services, channels and providers to meet future needs will require consumer insights.
Example Insights to Inform Primary Care Access Strategy: Preferences and Behaviors Related to Walk-In Care

Walk-in Clinic Would Visit
% Selecting Walk-in Clinic for Service

Why Would Visit Walk-in Clinic
% Selecting Walk-in Clinic for Service

- I don’t have to make an appointment: 45%
- This walk-in clinic has extended hours: 44%
- This walk-in clinic accepts my insurance plan: 37%
- This walk-in clinic is close to home or work: 35%
- I have had a good experience before at this walk-in clinic: 29%
- This walk-in clinic will share my record with my Family Doctor: 27%
- This walk-in clinic is part of a larger healthcare network: 26%
- This walk-in clinic is part of the same group as my Family Doctor: 23%
- I know I will be seen very quickly at this walk-in clinic: 22%
- This walk-in clinic has my records: 21%

Source: Kaufman Hall/Cadent Consulting Group Online Study May 2015
Example Insights to Inform Primary Care Access Strategy: When Does an Advanced Care Practitioner Meet the Consumer’s Needs?

Willing to See Physician Assistant or Nurse Practitioner
% Selecting

Age Range

<table>
<thead>
<tr>
<th>Condition</th>
<th>18-34</th>
<th>35-49</th>
<th>50-64</th>
<th>65-75</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sore throat</td>
<td>88%</td>
<td>86%</td>
<td>96%</td>
<td>89%</td>
</tr>
<tr>
<td>Blood pressure screening</td>
<td>80%</td>
<td>85%</td>
<td>92%</td>
<td>91%</td>
</tr>
<tr>
<td>Refill medication</td>
<td>86%</td>
<td>82%</td>
<td>91%</td>
<td>88%</td>
</tr>
<tr>
<td>Sinus infection</td>
<td>83%</td>
<td>80%</td>
<td>89%</td>
<td>88%</td>
</tr>
<tr>
<td>Arthritis</td>
<td>63%</td>
<td>69%</td>
<td>75%</td>
<td>70%</td>
</tr>
<tr>
<td>Urinary tract infection</td>
<td>72%</td>
<td>68%</td>
<td>73%</td>
<td>61%</td>
</tr>
<tr>
<td>Stitches</td>
<td>63%</td>
<td>56%</td>
<td>76%</td>
<td>72%</td>
</tr>
<tr>
<td>Physical or Wellness visit</td>
<td>64%</td>
<td>59%</td>
<td>64%</td>
<td>63%</td>
</tr>
</tbody>
</table>

Source: Kaufman Hall/Cadent Consulting Group Online Study May 2015
"Shoppable" Outpatient Services Are At-Risk Due to Lower-Priced and More Convenient Competition

Outpatient Commercial Volume CAGR (FY12 – FY14)

- Endoscopy: -11%
- OP Surgery: -11%
- PT/OT: -9%
- Laboratory: -9%
- Mammo: -6%
- MRI: -5%
- PET Scan: -4%
- CT Scan: -3%
- X-Ray: -1%
- Ultrasound: -1%

FY14 Contribution Margin from At-Risk Services: $98M
FY14 Total Operating Margin: $24M

- 3-hospital system in market with aggressive employers/payers
- Material volume declines in at-risk services contributing $98M to bottom line
How Does Price Stack Up to Other Importance Factors for Various Services?

Illustrative Service-Specific Examples
Consumer Insights to Inform Pricing Strategy: Conjoint Analysis Can Be Used to Estimate Willingness-to-pay Differentials

Pediatric Consumer Survey Key Willingness-to-Pay Findings

- Willingness to pay a premium for children’s hospital varies by service
- The underlying acuity of the child’s condition has a material impact on willingness to pay for some services

Note: Chart based on results from a national conjoint survey on at-risk pediatric services conducted by Kaufman Hall. The study was used to inform our pricing strategy recommendations for a Children’s Hospital.
To Attract Consumers to Your Network, it Must Be Well-Designed and Consumer-Friendly

Conditions Creating Demand for “Consumer-Friendly Networks”

• Greater choice of coverage options and improved information about costs and network differences

• Those with complex or chronic medical conditions may opt for total cost savings and may prefer high performing network products with potentially higher premiums

• Next wave of health benefits could include shift from low premium, high deductible plans and low cost providers to plans that better manage total out of pocket cost

What could be the elements of a “Consumer Friendly Network”? 

- Focus on containing overall consumer out of pocket cost
- Network of services relevant to consumer preferences
- Avoid incentives that discourage needed care
- Service commitments and seamless care coordination
- Offer competitive prices for commoditized OP services
- Charge higher prices for specialized, value-add services
Network Design Example: Nearly Half of Respondents Not Willing to Purchase Plan Including Only “System X” Hospital and Doctors

Willing to Purchase Plan That Includes Only System X Hospitals & Doctors
% Selecting

“Yes, if I would annually save....”

<table>
<thead>
<tr>
<th>Network of Family Doctor</th>
<th>System X</th>
<th>System Y</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>4%</td>
<td>4%</td>
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<tr>
<td></td>
<td>8%</td>
<td>11%</td>
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<tr>
<td></td>
<td>12%</td>
<td>10%</td>
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<tr>
<td></td>
<td>7%</td>
<td>2%</td>
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<td>1%</td>
<td>3%</td>
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<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>37%</td>
<td>48%</td>
</tr>
</tbody>
</table>

Source: Kaufman Hall/Cadent Consulting Group Online Study May 2015
Avoid the “Billboard Trap”: Understand Your Value Proposition and Target Specific Segments for Specific Purposes

WE ARE:
COMMUNITY HEALTH SYSTEM
### Consumers Are Not Monolithic and They Are More than Disease States and Demographics

<table>
<thead>
<tr>
<th>Tech Savvy Immortals</th>
<th>Family Planners</th>
<th>Sick and Savvy</th>
<th>Wellness Advocates</th>
<th>Hesitant Avoiders</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Population</td>
<td>25%</td>
<td>25%</td>
<td>15%</td>
<td>17%</td>
</tr>
</tbody>
</table>

#### Segmentation Profile

- **Tech Savvy Immortals**
  - Generally healthy
  - Do not go to doctor until very sick or in a lot of pain
  - Comfortable making medical decisions on their own

- **Family Planners**
  - Take proactive approach by leading healthy lifestyle
  - Feel confident making healthcare decisions
  - Comfortable around doctors
  - Looking for extra services - care coordination, extended hours

- **Sick and Savvy**
  - Less interested in health and wellness
  - Not healthy
  - Feel knowledgeable about facilities and navigating the system
  - Feel comfortable at Doctor’s office, asking for alternative treatments

- **Wellness Advocates**
  - Regularly exercise and eat well
  - Comfortable with doctor and seeks advice about how to improve wellness
  - Researches how to maintain health via online tools

- **Hesitant Avoiders**
  - Unhealthy
  - Will not pay more for higher quality care
  - Comfortable researching facilities and services; wants to be engaged with healthcare, but has doctor anxiety

#### Healthcare Drivers

- **Tech Savvy Immortals**
  - Less likely to have a family doctor
  - More likely to have been to a retail clinic
  - Seek more information about medical conditions online
  - High interest in online health tools

- **Family Planners**
  - Value seeing a doctor over a practitioner
  - Very satisfied with and high loyalty to family doctor
  - High interest in online health tools
  - Care that Hospital is state of art and part of big network

- **Sick and Savvy**
  - Over index on visiting doctor for chronic condition and lab work, so visits are planned
  - Most have visited doctor 2+ times
  - Less likely to out migrate
  - Seeks the highest quality healthcare

- **Wellness Advocates**
  - Visited fewer facilities in general
  - Fewer have a family doctor
  - Those who have one, likely to visit once per year
  - Engaged with online tools to better their wellness

- **Hesitant Avoiders**
  - More likely to have been to the ER
  - Most have visited doctor 2+ times
  - Very willing to see mid-level
  - More likely to consider price when choosing a doctor or hospital

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Segmentation and results most tangible and actionable when aimed at a significant but specific issue (e.g., access preferences and attitudes segmentation)
Applying Segmentation Insights Will Enable Better Program Design and Communication Decisions

Example Objective: Reduce Avoidable ED Visits by getting chronically ill patients to adhere to medication and do regular screenings

From “WHAT”
- Insights from CRM database
- Clinical & demographic data

“BOOMER DIABETICS”
- Ages 50+
- Have gone at least 6 months without a doctor visit

“To “WHY”
- Attitudes on available products, services and access points
- Perceived barriers to treatment

“SICK & SAVVY”
- Has limited time to spend on healthcare
- Wants to leverage technology

“HESITANT AVOIDER”
- Not interested in virtual access
- Values personal attention, care and clinician time

Motivations: Engagement
How to Motivate: Use relevant mediums to address most important questions

Actions:
- Direct mail reminding patients about regular A1C testing
- Offer medication consults and access to “nurse line”
- Personal phone calls with Rx refill and screening reminders
- Customizable patient portal to track key health metrics
- Offer virtual check-ins
- Access alternatives
Today’s Key Takeaways

• Significant market and organizational imperatives exist for focusing attention on consumers and advancing capabilities to develop and act on consumer insights

• Good strategy begins and ends with your customers and consumers are an increasingly important customer for healthcare providers

• Consumer insights are best viewed as a tool to solve difficult business problems

• Becoming consumer-centric is a journey, not a sprint or something that happens overnight

• Advancing along the three stages means more regularly and systematically utilizing consumer data and insights to answer key business questions
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